WASHINGTON—Today, U.S. Representative Mike Quigley (IL-05) argued for reform from states facing pension liability and accumulated debt crises, rejecting proposals advocating states declare bankruptcy during an Oversight subcommittee hearing. Quigley is the ranking member of the Oversight and Government Reform subcommittee.

“I'm from Illinois so you can't tell me pension liabilities aren't a serious issue,” said Quigley. “Our job in Washington is to differentiate between states with temporary funding issues and those with structural deficiencies, encourage these troubled states to reform their behavior, and accurately assess the risks they pose to our national economy.”

Today's hearing was Quigley's first as the lead democrat of the Subcommittee on TARP, Financial Services, and Bailouts of Public and Private Programs. He recently released part one of Reinventing the Federal Budget , a 70 page report promoting fiscal sustainability.

The full text of Quigley's opening statement is below**.**

Rep. Mike Quigley Prepared Opening Statement

“State and Municipal Debt: The Coming Crisis?”

Mr. Chairman, I’d like to begin by thanking you for convening today’s timely hearing on municipal debt. I’d also like to thank our four witnesses for generously contributing their time and expertise to this discussion. As you know, I’m from Illinois—you don’t need to tell me about how bad its finances are.

Illinois has gone through decades of bad financial decision-making, under both Republicans and Democrats. Illinois now has an $8 billion backlog in payments and a gaping $136 billion hole in its pension system, leaving its pensions less than 50 percent funded.

It should be no surprise, then, that the rating agencies have downgraded Illinois bond issuances several times in the past twelve months. Last year, Illinois bonds carried the worst credit risk of any U.S. state, and were only slightly less risky than bonds from Iraq. According to Laurence Msall of the Civic Federation, this bad rating was costing Illinois taxpayers $551 million extra per year in interest payments. And total debt service in Illinois is expected to increase by 33 percent between now and 2017.

The only way Illinois was able to climb up from the bottom rung was to raise state income taxes a whopping 66 percent, an outcome no one wanted. This tax increase brought Illinois’s bond rating back up and reduced borrowing costs, but only by passing those costs onto Illinois taxpayers. Illinois has to reform its pension system, but it also has to reform its whole way of doing business, which has left retirees vulnerable and taxpayers on the hook.

As Professor Alan Dershowitz said of Harvard's shrinking endowment after the 1990s boom—'people forgot the story of Joseph in Genesis: during the seven good years, you save for the seven lean years.' Illinois didn't save for the seven lean years and now it has to deal with the consequences.

That said, what's going on Illinois is not necessarily what's going on everywhere else. True, most states have recently run up large deficits, thanks to a collapse in tax revenues during the recession. But this short-term fiscal problem will improve as our economy gets going again. The real problem is an actuarial problem unique to 6-8 states, including Illinois, which suffer from long-term structural imbalances.

The culprits are rising health care costs, underfunded pension plans, and poor financial management. Some of these pension plans look particularly bad right now because of the collapse in value of pension assets. But even an appreciation in asset value will leave several state pension plans worryingly underfunded. The municipal bond market is now responding to legitimate concerns about the long-term structural imbalances in these 6-8 states. But I believe we would be correct to distinguish these bad apples from the other 40-some states that have been relatively well managed and have only temporary deficits.

This is why a one-size-fits-all approach, like bankruptcy for states, could do more harm than good. What we have to avoid is any rash action that would contribute new risk factors to the bond market. State and local governments across the country need to continue building roads and bridges, and we don't want to make the financing any more expensive than it already is.

So we need to be crystal clear that although there are national interests at stake, the onus must be on these 6-8 state governments to reform themselves. And they need to reform sooner rather than later—a default on payments would make it obscenely expensive for all states to borrow.

Taxpayers would bear the brunt of these costs, either through higher taxes or through reduced public services in a move towards austerity. For example, bridges and roads and other necessary public works would have to be financed at very high interest rates or simply never get built.

Mr. Chairman, I don't want an Illinois problem or a New Jersey problem to become a national problem. States like Illinois and New Jersey have to institute commonsense reforms to shore up their finances. At the same time, government's mission matters, and successful reform will ensure that workers get the pensions they've earned through their years of service. All we need is the political will to get it done. I look forward to hearing from our witnesses on this matter, and to their discussion of possible next steps.